

SFA Modernization Program
United States Department of Education
Student Financial Assistance



**Electronic Audited Financial Statements &
Compliance Reports**

Focus Group and Site Visit Summaries

Task Order #13
Deliverables #13.6.1 & 13.6.2

December 15, 2000

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1 Introduction

Purpose

SFA requested the assistance of the Modernization Partner in determining the scope of requirements necessary to collect electronic audited financial statements and compliance audits from participating institutions and their auditors. Specific purposes of the effort are to identify the functional and technical requirements necessary to prepare a Task Order to implement a solution. The focus will be on SFA Audits and A-133 Audits, both Compliance and Financial Statements. Requirements will be defined through the use of internal and external interviews, focus groups and site visits, as necessary.

The purpose of the deliverables included in this document is to summarize the information collected during the focus group sessions, site visits and individual interviews. Later deliverables will provide recommendations for functional and technical requirements.

Scope

The work consists of identification of requirements to collect electronic audited financial statements and compliance audits from participating institutions and their auditors. These requirements will be gathered via review of current submission documentation, interviews, and site visits with SFA staff, Federal Audit Clearinghouse, and other entities.

Approach

The Modernization Partner will contribute to a small, highly skilled team to work in concert with U.S. Department of Education personnel to identify the requirements necessary to collect electronic audited financial statements and compliance audits from participating institutions and their auditors.

In summary, the requirements definition will focus on the following areas:

- Functional and technical requirements input from focus group sessions and/or individual interviews
- Site visits to review systems of similar function and capabilities
- Review of currently required data elements, compliance, and financial reporting documents

The review work will require interviews and/or visits with the following: Federal Audit Clearinghouse (FAC), Post-Secondary Education Participants System (PEPS), Office Management and Budget (OMB), Housing and Urban Development (HUD), ED Office Inspector General (OIG), SFA Financial Partners, SFA Chief Financial Officer, ED Chief Financial Officer, SFA Chief Information Officer, American Institute of Certified Public Accountants (AICPA), SFA Policy and Analysis, and no more than three institutions. We anticipate that there will be no more than three site visits outside the DC metro area. As requirements are developed by the work team, initiatives which could influence recommendations will be taken into account (e.g. Electronic Document Management IPT).

NOTE: The interview with the SFA CFO could not be completed by the due date of this deliverable. The SFA CFO requested that the meeting scheduled for December 12, 2000 be postponed until the week of December 17, 2000 when key staff could be in attendance.

In addition, numerous attempts to schedule a meeting with Rick Heroux of the SEC to review the EDGAR system were unsuccessful. The SFA DMAD Project Manager is in the process of identifying another SEC staff member to contact. A schools/institutions focus group meeting will be scheduled in early January, 2001. To encourage participation, coordinator of the Common Origination and

Distribution (COD) Steering Committee will make initial contact with the schools and the National Association of College and University Business Officers (NACUBO).

Organization of this Document

This document provides summaries of the site visits, individual interviews, and focus group meetings conducted. This information will provide a basis for the requirements definition document separately provided in the project.

The following information was gathered for the system identified above:

- **Focus Group Summaries:** Provides a summary document of information collected during focus group meetings.
- **Site Visit Summaries:** Provides a summary document of information collected during site visits and individual interviews.
- **Flowcharts:** Provides a high level summary of the workflow process for financial statements and compliance audits based on the information collected during focus group meetings and site visits.

2 Focus Group Summaries (13.6.1)

DRCC/Case Management Team Focus Group Summary

On November 15, 2000 a cross-section of DRCC and Case Management Team staff members participated in a facilitated focus group meeting. The attendees are listed at the end of this section. Prior to the meeting, they were e-mailed a briefing on the background and objective of this project and the focus questions. The group's responses are summarized below.

Background:

In an effort to increase customer service and employee satisfaction, deliver great products, and be more efficient through modernization, SFA is gathering requirements necessary to collect electronic audited financial statements and compliance reports from participating institutions and their auditors. The focus will be on SFA Audits and A133 Audits, both Compliance and Financial Statements. Requirements will be defined through the use of internal and external interviews, focus groups and site visits. KPMG Consulting is participating with SFA in this effort.

Meeting Objective:

- Gather information regarding "as-is" processes for collecting and reviewing audit and compliance reports from institutions.
- Understand the administrative / regulatory framework for the process.
- Identify improvements to the process.

What is the biggest problem you consistently encounter in your daily activities related to the financial reporting and compliance process?

- **Context of Information**
School's responses on the Electronic Application (E-APP) are out of context because only the code is on the screen and not the entire original question to which it pertains. Analysts will need all information for an electronic financial statement process.
- **Receipt Dates**
Don't know clearinghouse receipt dates for A133s, which should be in PEPS. Financial statements are difficult to get from FAC in a timely fashion. Sometimes not getting both the compliance and financial statements. (These dates are currently in the system.)
- **Timeliness**
There is a lag time in getting deficient SFA audits, particularly A133s, to analysts. The DRCC has recently stepped up efforts to improve turnaround time, so the problem may be with case teams.
- **Flag Criteria**
Audits flagged for a change in auditor take time to resolve. May need to look at whether this is a good reason to flag.

What forms and info would be beneficial to receive electronically and why? What would you change about the current processes to enhance your activities?

- **Audits**
Group consensus was that full financials, to include notes and findings are required. A-133 audits can be voluminous. Should/can just Title IV portion be electronic.
- **Record Retention**
The current plus two prior year audits should be available online. Record retention requirements and what, if any, data is to be converted to a new system will need to be considered, as well as how to address late audits.
- **Forms**
 - Certification form from auditor to validate opinion and financials
 - Audit Clearance Document
 - Deficiency Data Input Form
 - Final Audit Determination Letter
 - Letter of Credit template
 - Transmittal letters and completion letters from DRCC. Ideally, they should be e-mailed.
- **Other Audits**
Analysts would like to know audit periods and refund information for IG audits and program reviews.
- **Updates**
Need update capabilities for analysts to document findings and decisions. DRCC's reject and on-hold process updates and amendments should also be available to track status of audits.
- **School's Correspondence**
Consider how additional information from schools will be handled and stored in system, filed, etc. Where and what is final record. (i.e. LOC requires substantial additional information)
- **System Interfaces**
Interfaces with other systems for key data elements to perform financial analysis- i.e. liabilities and past performance. Other systems currently used:
 - CMIS
 - Risk
 - CARS
 - PEPS
 - AAAD
 - Lotus Notes (CAIRO)

What improvements would you like to see made to the process for collecting financial and compliance information? Structure your responses in the following categories:

- **Technology type**
- **Workflow/process**
- **Reporting**

Technology type

- The new system should be a single repository for all data and correspondence. Group expressed concern that database could be too large to efficiently access data.
- System should have the ability to accept third party servicer audits.
- The system should maintain the ability to code findings using the existing list of deficiency codes.
- If a profile for new applicants is not in the system when the audit is received, then the system should have ability to accept audit information so the process is not held up.

Workflow/process

- Better communication/relationship with Clearinghouse
- Easier determination of which institutions should have an A-133 audit for both re-certifications and oversight.
- For purposes of determining total federal funding, need to know all programs audited and CFDA numbers (schedule of federal awards) to compute refund findings calculation.
- If funding is less than \$300,000, initial data entry screen could ask the appropriate question to determine if a waiver had been issued.

Reporting

- Access to multi-year data could perform trend analysis and graphic comparisons and other metrics, give historical info, etc.

Attendees

Mary Huntingdon (Case Team)
Sue Dolson (Case Team)
Joe Jenkins (DRCC)
Gene Kelly, Jr. (Case Team)
Emil Milosz (Case Team)
Dyon Toney (DRCC)
R.T. Reynolds (Case Team)
Linda Brock (Case Team)
Richard Dawkins (Case Team)
Vincent Robinson (Case Team)
Byron Scott (via conference call from Chicago) (Case Team)
Ralph Seastrom (via conference call from Boston) (Case Team)
Rosemary Tarpley (via conference call from Boston) (Case Team)
Patti Girstantas (Case Team)
Deborah Godden (PIPD)
Barbara Hemelt (Case Team)
Randall Wolff (DMAD)

3 Site Visit Summaries (13.6.2)

ED CFO/OIG/OGC/Policy

Meeting Purpose: Establish an administrative and regulatory framework for the submission of electronic financial statements and compliance audits.

Meeting Date: October 16, 2000

Time: 9:00 am – 11:30 am

Location: ROB 3

Attendees

1. Hugh Monaghan – OIG (via teleconference)
2. Steve Finley - OGC
3. Pat Trubia - Default Management Division (via teleconference)
4. Pat Dever, Amy Egan, Tom Lusk - CFO
5. John Kolotos - Policy and Analysis
6. Keith Kistler - SFA CMO PIP
7. Ellen Bond – SFA PEPS
8. Greg James, Sherry McCartney - SFA DMAD
9. Bob Swab, Ken Thompson - KPMG Consulting

Topics Discussed

1. Reconfirmed the project background.
2. Reviewed basis of Memorandum of Understanding with ED and Federal Audit Clearinghouse.
3. Confirmed that visits necessary are HUD and SEC to determine what other agencies are doing. Suggestion made to consider visit to Treasury.
4. Group agreed to the importance of gathering enough data in electronic process to support a defensible position on behalf of ED. Noted that standards are being defined within Schools Channel.
5. Participants' Suggested Requirements for Electronic Financial System:
 - Consensus to receive entire financial and compliance audits electronically.
 - Format options could be a PDF format file on the low end to a completely Web-based entry on the other end.
 - Compliance findings in report should be in full text format in the system for analysis
 - Have the ability to track population of financials to be received, late, etc.
 - Electronic notification to institutions that SFA has received documents.
 - Computer edit checks for composite and key risk parameters included.
 - Must meet evidential standards needed to defend action against institution.
 - Provide for appropriate security and privacy concerns.
 - Interface with Common Audit Resolution System (CARS).

6. Participants' Future Vision of System:

- Off-line system in which practitioner would transmit file to ED.
- Include models for foreign institutions, third-party servicers, lenders, guarantee agencies, etc.
- Eliminate multiple systems.
- Combine system with PEPS.
- Access system through Schools Portal.
- Create ability to accept interim data and proforma / combined data after institutional acquisition or merger.

7. Other Considerations:

- Consider potential impact on DMAD and Case Team operations if no Federal Audit Clearinghouse review performed.
- Consider how the new system would affect the DRCC and Case Team method of triaging financial and compliance audits.

Housing and Urban Development (HUD)

Meeting Purpose: Demonstration of HUD's Web-based system for entry and receipt of financial and A-133 compliance data from constituency.

Meeting Date: October 17, 2000

Time: 1:30 pm – 4:00 pm

Location: Portals Building

Attendees

1. Dave Vargas (Director), Phil Smallwood, Peter Bell - HUD
2. Lisa Brown - ATS, System Developer
3. Greg James – SFA DMAD
4. Keith Kistler – SFA CMO PIP
5. Bob Swab - KPMG Consulting

Topics Discussed

1. Challenges of the HUD process:
 - Standardization of data
 - AICPA involvement because attestation certification is required from independent auditor of data elements.
 - The initial plan to use a flat file format created support issues.
 - Standardization of the account reporting structure.
 - Understand the process and functional requirements to determine the universe of available technology.
2. Basic Technical Information:
 - Cold Fushion is front end
 - Sybase relational database
 - Java scripts
 - Unix Platform on Sun server (Solaris operating system)
 - Followed standard systems development process
3. Milestones of Development Process:
 - February 1997 – Requirements definition began
 - Fall 1997 – Started coding
 - February 1998 – First pilot with flat file approach (decision made to delay implementation)
 - December 1998 – First version of template software over the web
 - Since 1998 – Upgraded 4 versions to include 9 submission types
 - HUD provided a more detailed milestone summary.

4. Lessons Learned:

- Complete a pilot/proof of concept.
- Use a phased approach (HUD had 9 business models to adopt) and adopt only one or two at a time.
- You cannot train too much.
- Do not underestimate the amount of support required once the system goes live.
- Develop a system for on-line support.

5. Received a demonstration of HUD's on-line system.

Office of Management and Budget (OMB)

Meeting Purpose: To discuss regulatory issues with electronic receipt of A-133 and coordination with Federal Audit Clearinghouse (FAC).

Meeting Date: October 18, 2000

Time: 9:00 am – 10:00 am

Location: ROB 3

Attendees

1. Terry Ramsey - OMB
2. Greg James - SFA DMAD
3. Keith Kistler - SFA CMO PIP
4. Bob Swab - KPMG Consulting (via teleconference)

Topics Discussed

1. Provided OMB with project background.
2. Described current processing environment at FAC.
3. Obtained contact information for FAC visit.
4. Need to coordinate process with FAC and OMB.
5. There could be matters which lead to a modification of the Memorandum of Understanding between ED and FAC.
6. OMB indicated that ED should not usurp the clearinghouse authority with any system they define.
7. OMB will work with ED should any data collection forms governed by Government Paperwork Elimination Act (GPEA) be affected.
8. OMB suggested that ED coordinate any system with outside industry associations, i.e. NACUBO and AICPA.

SFA Financial Partners

Meeting Purpose: To determine the nature of financial information provided by SFA to SFA Partners.

Meeting Date: October 23, 2000

Time: 9:00 am – 10:00 am

Location: ROB 3

Attendees

1. Greg James - SFA DMAD
2. Keith Kistler - SFA CMO PIP
3. Bob Swab - KPMG Consulting
4. Yolanda Marshall - SFA Partners (Guarantee Agency)

Topics Discussed

1. Collection mechanism – they currently receive hard copy of audit report from DMAD/DRCC or directly in the mail.
2. Process – Review findings and key certain data into PEPS. Ratios are not reviewed. In some cases fund balance is reviewed.
3. Estimated Population Characteristics – 36 guarantee agencies, 30-40 secondary markets, 370 lenders, 30 third-party servicers (ala EduServ).
4. Only one person is responsible for database (stand alone Dbase file).
5. Basic data entered into PEPS is lender ID, name and address. Data elements from screens can be provided to the project team, if necessary.

SFA CIO

Meeting Purpose: To determine coordination with SFA CIO during project.

Meeting Date: October 23, 2000

Time: 1:30 pm – 2:00 pm

Location: ROB 3

Attendees

1. Helene Epstein, Paul Hill - CIO
2. Bob Swab, Ken Thompson - KPMG Consulting

Topics Discussed

1. CIO should be involved on the front end when estimating all costs of development. Integrated Product Team (IPT) process must be followed.
2. Software build and product build – Paul Hill coordinator
3. Technical standards – Paul Hill will be liaison
4. Testing standards – to be determined when appropriate by CIO.
5. Electronic records management process will be coordinated with other SFA / ED efforts.

CBMI (PEPS Contractor)

Meeting Purpose: Demonstration of the PEPS system and Electronic Application (E-APP) for Re-certification.

Meeting Date: October 24, 2000

Time: 9:00 am – 11:00 am

Location: Alexandria, Virginia

Attendees

1. Laurie Miesen, Rebecca Bish (Lead Developer) - CBMI
2. Bob Swab - KPMG Consulting

Topics Discussed

1. Provided CBMI verbal summary of the EFS project.
2. Summary of E-APP Process:
 - Schools enter information over the web.
 - Required fields are checked by the system prior to submission.
 - Address edit checks in system.
 - Prior form populated and only changes required.
 - Submission sent to a holding area pending preliminary screening by Case Teams before populating database.
3. Database is Oracle. Tools include Oracle developer and app server. Technical system specifications should be obtained from ED.
4. Paper signature from institution still required. ED is in the process of analyzing the impact of electronic signatures and GPEA. Did not need to obtain OMB approval for process because they replicated existing paper form on the web.

Document Review and Control Center (DRCC) Compliance Audit Review Process

Meeting Purpose: To review the DRCC procedures for compliance audit reviews and to demonstrate the processing of an actual compliance audit.

Meeting Date: November 13, 2000

Time: 9:00 am - 11:00 am

Location: ROB 3

Attendees

1. Dyon Toney - DRCC, Friday Systems Services
2. Bob Swab, J'Melle Hargrove - KPMG Consulting

Topics Discussed

The Deck's Compliance Audit Processing Manual documents the process as summarized:

1. Initial Input
 - Audit received by DRCC; date stamped and logged by OPEID# into PEPS, which is the system of institutional record for all audits.
 - Audit Control Number (ACN) is automatically assigned in PEPS.
 - Enter information into Lotus Notes correspondence log.
2. Perform Acceptability Review
 - In Lotus Notes, complete the acceptability review checklist to determine whether SFA compliance audit meets regulatory requirements.
 - Any A-133's received from the Federal Audit Clearinghouse (FAC) are assumed to have met acceptability standards. (Financial statements portion is given to a financial analyst to perform financial review.)
 - If deemed unacceptable, the audit is placed on hold and the school is sent a standard letter requesting missing information within 10 days. The audit may be rejected if a prompt resolution is not expected.
3. Review Findings and Code Deficiencies
 - The auditor's findings are matched to a standardized list of deficiency codes that are rated as either significant or minor. Each code is also weighted as either deficient or non-deficient.
4. Final Input
 - In PEPS, codes are input based on the above review.
 - PEPS automatically calculates a deficiency indicator for significant findings.
5. Issuance letters to the schools documenting review results are generated in Lotus Notes on a weekly basis. If deficient, the audit with a transmittal letter and schedule of findings and deficiency codes is passed to the case teams for resolution. If non-deficient, audits and correspondence sent to Central Files. However, 5 of 10 case teams receive non-deficient audits as requested.

Reference: PIP Memorandums: 97-18 (R-1), 97-19 (R-1); Messages: 194, 214, 223

DRCC Financial Statement Review Process

Meeting Purpose: To discuss the processing of a financial statement audit.

Meeting Date: November 14, 2000

Time: 9:00 am - 11:00 am

Location: ROB 3

Attendees

1. Joe Jenkins - DRCC, Friday Systems Services
2. Bob Swab, J'Melle Hargrove - KPMG Consulting

Topics Discussed

DRCC Financial Statement Processing Guide documents this process. Below is a summary of the process and additional discussion points.

1. Receipt
 - A-133 financial statements received from FAC. Data file is downloaded by DMAD/DRCC. Proprietary institutions send financial statements directly to DRCC, which enters receipt date into Lotus Notes Correspondence Log. Once the DRCC receives a financial statement it has 15 days to complete the review and send to the case team.
2. Primary Review
 - Analyst reviews statement for completeness, Generally Accepted Accounting Principles (GAAP) and Generally Accepted Government Auditing Standards (GAGAS), adequacy, change in auditor, etc. Disclosure notes and comments reviewed to address any areas of concern.
 - Standardized letters for incomplete audits generated and sent to school requesting needed information. Audit is held until all information is resubmitted and can be evaluated as complete.
3. Ratio Analysis
 - Three financial ratios are calculated for proprietary and non-profit institutions. Analyst enters balance sheet and income statement information into Lotus Notes and calculates a composite score. Based on predefined criteria, institution can be flagged for a low composite.
 - Complete and flagged audits are sent to case teams for final resolution. Copies sent to Central Files.
4. Final Data Input
 - PEPS and Lotus Notes updated with dates of completion and letters issued to school.
 - Complete and unflagged audits are centrally filed with correspondence.

Additional discussion points:

1. For A-133's, does clearinghouse generate an acceptability letter?
2. Audits flagged due to Change in Auditor create additional work and holds up processing.
3. Additional time needed to fold letters and stuff envelopes for mass mail out of weekly-generated letters. Consider purchasing a folding machine.
4. Foreign audits may become part of DRCC responsibility.

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5. Concern expressed about what is included in balance sheet definitions- i.e. Intangible assets, property plant and equipment- has definition changed?
 6. HEA grants-CFDA 84 funds can be used to recompute composite scores if less than passing. Need criteria or system to automatically identify when HEA funds can be used.
 7. OPE locator code and all related OPEID #'s are difficult to match up for statewide and multi-state institutions. Can school be required to provide all numbers on cover sheet with OPEID#?
 8. OPE locator code is sometimes different between central files and CAIRO (Lotus Notes).
 9. One single letter should be sent to statewide schools instead the same one to each school within the system.
 10. Occasionally deficiency letters from compliance and letters from Financial Analyst confuse school.
 11. Sometimes financial statement arrives from new institutions before an OPEID # and profile are created. Need the ability to input review as soon as received instead of waiting for an OPEID number.

Case Team Compliance Audit Review Process

Meeting Purpose: To walk through the process of performing a SFA compliance audit.

Meeting Date: November 14, 2000

Time: 1:30 pm - 4:00 pm

Location: ROB 3

Attendees

1. Sylvia Bentley - Compliance Audit Resolution Specialist (ARS), Chicago Team
2. Bob Swab, J'Melle Hargrove - KPMG Consulting

Topics Discussed

Detailed steps discussed are as follows:

1. Flagged audits are delivered by DRCC and received by a designated case team member, who signs off on the transmittal sheet. Flagged audits should be only those with a deficiency finding code of (1)-significant.
2. Audits are disbursed to appropriate ARS in the DC office and sent by FedEx to the regional teams. Program Support Analyst (PSA) logs specialist's initials assigned to audit in PEPS.
3. ARS logs onto PEPS and reviews basic information:
 - Previous audit year- if none shown, Specialist may write up as an additional finding. Use PEPS Audit Report Section to record, which requires Area Case Director approval to refer to Admin Actions and Appeals Division for further action. If an audit file is needed from Central Files, request via e-mail;
 - Contact names- double check system information against letterhead to ensure correspondence will be received by school. (Update PEPS if necessary); and
 - Certification type- full, provisional, or limited.
4. The ARS reviews each individual finding type. (NOTE: Sylvia expressed a desire to have the page number from the audit report and dollar amount to be included on summary sheet.) ARS then performs an analysis of each finding using standard audit practices and procedures. The initial preparation of the Final Audit Determination (FAD) Letter uses a Word template with standard audit boilerplate language referring to regulations, etc. to include the following elements (not all inclusive):
 - Findings as numbered on DRCC's summary. Each finding must be retyped verbatim including page number and questioned cost amount;
 - Regulation violated (cut and paste and/or paraphrase from other letters or some other file);
 - Required repayment terms and a separate page for repayment schedule;
 - Corrective Action Plan comments; and
 - Comments on any Program Review findings in CMIS.
5. FAD is mailed to the school via certified mail. The green receipt delivery card will be date stamped by the PSA when it is returned. The school has 45 days from this date to respond.
6. If repayment is required the Audit Clearance Document (ACD) is completed. The Area Case Director must approve. PSA enters into PEPS, Financial Aid and Admin get copies, and DRCC gets the original for its files. CARS uploads refund information directly from PEPS and Accounts Receivable gets information from CARS.
7. ARS completes a Deficiency Data Input Form (DDIF) for entry into PEPS.

OTHER- Specialist requested that required forms for the new system should include ALL audit pages, corrective action plan statement from prior audit, and student Refund Schedules A, B, and C.

Reference: PIP Memorandums: 97-15 (R-1), 97-16 (R-1), 97-17, 97-20

Case Team Financial Statement Review Process

Meeting Purpose: To discuss the processing of a flagged financial statement review.

Meeting Date: November 15, 2000

Time: 9:00 am - 11:00 am

Location: ROB 3

Attendees

1. Richard Dawkins- Headquarters, Co-Team Leader, Seattle Region
2. Bob Swab, J'Melle Hargrove - KPMG Consulting

Topics Discussed

1. By region, groups of financial statements are delivered by DRCC to the case teams to be added to a workload distribution to analysts. They are also added to an internal flagged audit spreadsheet.
2. The Analyst reviews the accounting score and recomputes the school's composite scores to verify DRCC calculations using PROPCALC.xls that duplicates Lotus Notes calculation. If a different score results, then DRCC is notified (*via e-mail*) to change the Lotus Notes score.
3. Insure independent audit is in compliance with GAGAS and GAAP.
4. Investigate issues and review regulations as necessary. The Analyst may opt to look at the two most recent audits.
5. All issues are added to the agenda for Thursday's conference call to get team approval and recommendations. If a major problem exists, i.e. low composite score or a major accounting issue that doesn't meet standards, then the Team can request a reduction in Letter of Credit (LOC). Resolution and final determination rests with the case team.
6. A Final Audit Determination Letter is created and added to the case file. No standard template is used; only a general format using key elements.
7. Each team member updates CMIS. PSA updates a team summary spreadsheet. Feedback is provided to DRCC to change Lotus Notes if necessary.
8. If LOC reduction is deemed as a resolution, the Analyst verbally notifies school, then follows up with an official letter. The school can be given two options: 10% LOC which puts them on provisional status and 50% LOC which gives them a financially responsible status.
9. LOC copies are sent to the state licensing agency, school president, Area Case Director, Financial Aid Administration. The original is kept in a safe. PEPS is updated via a Basic Data Entry Sheet by the PSA. The Analyst follows up via e-mail and/or phone call if a response is not received within 30 days. All correspondence gets filed with the DRCC.

Reference: PIP Procedures Memorandums: 97-10; PIP Mailbox Messages: 163

PIPD's Understanding of the Compliance Audit Review Process

Meeting Purpose: To clarify the general process of performing a SFA compliance audit.

Meeting Date: November 16, 2000

Time: 9:00 am - 11:00 am

Location: ROB 3

Attendees

1. Deborah Godden, Antonia Hamlin, Greg James – SFA DMAD
2. J'Melle Hargrove, KPMG Consulting

Topics Discussed

1. Audit Transmittal Form with flagged compliance audits is received from DRCC. (5 teams get all audits)
2. The Co-Team Leader assigns the initials of ARS in PEPS.
3. ARS opens a case in CMIS, which is used to document case notes for applications, re-certifications, and audits.
4. Preliminary FAD letter is sent to the school.
5. ARS performs research to resolve audit findings, which may include reviewing prior audit findings/program reviews/re-certifications in PEPS. Prior audits may be requested from DRCC. The purpose is to try to combine all financial issues in one analysis.
6. A FAD letter is sent to the institution.
7. The Audit Clearance Document (ACD) outlining the total liability is completed and processed:
 - Entered into PEPS;
 - Uploaded into Common Audit Resolution System (CARS) - Finance A/R sets up receivable to start billing process, compares FAD to ACD. If a discrepancy, then it goes back to ARS for correction.
8. A DDIF is completed. The PSA loads into PEPS (corrections do not go back to DRCC to change in PEPS). Note: If liability is greater than \$100,000 OGC (Office of General Counsel) approval is required.
9. The school may appeal within 45 days.
 - The appeal is sent to the Administrative Action Appeal Division (AAAD) which then notifies Finance to suspend billing until resolved.
 - ARS is notified and required to give an assessment and send back any documentation to the adjunct AAAD justifying findings.
 - If the appeal is accepted, AAAD sends school letter reducing liability. Specialist gets letter to amend the ACD and DDIF so Finance can rebill. The DDIF has a correspondence section to record the final resolution.
 - If the appeal is not accepted a hearing is scheduled with the Office of Hearings and Appeals (OHA).

ARSs also perform other review processes. For instance, if no audit has been submitted a school may be listed on DMAD's report of delinquent audits.

- School is asked to send proof of submission.
- If no audit was ever performed, the school must submit a copy of the engagement letter for the audit within 45 days.
- Audit must then be submitted within 45 days of the date on the engagement letter. School has a total of 90 days from the first notification to submit an audit.

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- If no response is received, the ARS gets a total of all departmental funding for that unaudited period and assesses a liability for the total amount. A letter requesting the return of all Title IV funds is then sent to the Dept. of Ed with a copy to AAAD.
 - When the audit is received, the ARS refers to AAAD to assess penalties and/or take further action.

Occasionally, an ARS may receive a draft of an IG audit, which could be a focused review.

- ARS reviews and comments on findings and returns to IG within the specified number of days. Then OIG issues the preliminary FAD.
- ARS works closely with OIG (and OGC if over \$500,000) to ensure that findings are defensible since these audits always go through the appeal process as outlined above. Once the issue is finalized, the ARS issues a FAD and enters dates, etc. into PEPS.
- Quality Control Reviews (QCR) are also performed to assess the efficiency of the ARS resolutions, which sometimes require modification of findings, etc. in PEPS.

Federal Audit Clearinghouse (FAC)

Meeting Purpose: To obtain an overview of the FAC's processing of A-133 audits.

Meeting Date: December 1, 2000

Time: 9:00 am - 3:30 pm

Location: Jeffersonville, Indiana

Attendees

1. Gerard Keffer- Chief, Federal Program Branch, Department of Commerce
2. Linda Gehring, Eileen Little, Pam Jenkins, Nancy Briscoe- FAC
3. Randall Wolff, Greg James – SFA DMAD
4. Bob Swab, J'Melle Hargrove - KPMG Consulting

Topics Discussed

Gerard Keffer led a discussion and presentation of the government-wide processing system. Linda Gehring provided a tour of the main processing center facility and demonstration of an audit review.

1. Electronic Reporting

- FAC currently requires a completed Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations (Form SF-SAC) before processing any audit. This form is available online and page three (audit findings and federal funding by CDFA number- up to 80 lines) can be submitted as an Excel spreadsheet.
- System performs edit checks of data input.
- Upon submission, an Internet file number is generated and automatically printed on the hard copy. The final copy must be printed, signed, and sent in with the audit.
- Oracle database used.
- Future enhancements include capturing an electronic image of text findings and ability to identify A-133 non-respondents. Discussions are expected to take place in FY 2001 with the enhancements 2-3 years later based on funding.

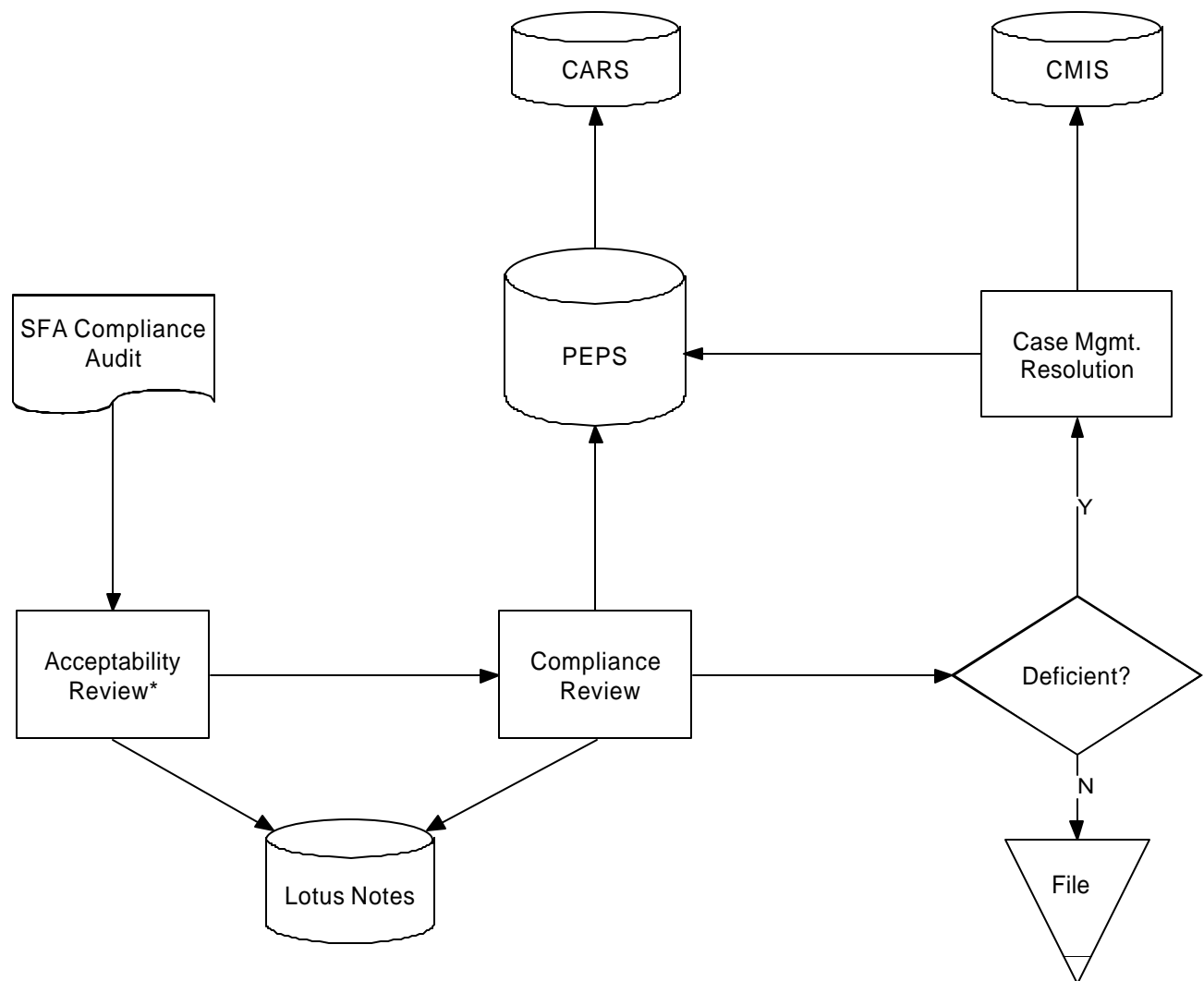
2. General Process

- FAC receives audit and Data Collection Form- via Internet or hardcopy. If submitted electronically, FAC must "match" all pieces –signed hardcopy with Internet confirmation number, spreadsheet, and the audit. Otherwise, form data is entered into system manually.
- If form is deemed incomplete, school contacted via letter requesting info. Audit is then put in a holding area until all info is received.
- FAC performs a cursory review of the audit, assigns an Audit Control Number, and sends a copy to agencies identified on the form.
- Via U.S. mail, FAC sends audits, and a schedule of education CFDA's that have findings, to DRCC that are complete and approved. In some cases, FAC may send an incomplete audit if Data Collection Form corrections can't be obtained within 60 days.
- Nightly, files of all newly processed audits, both complete and incomplete, are uploaded from their database in Indiana to their database in DC. Weekly, six text files are created and sent to DRCC to import into PEPS. The file of all complete audits should match to the box of audits received by the DRCC.

3. Issues

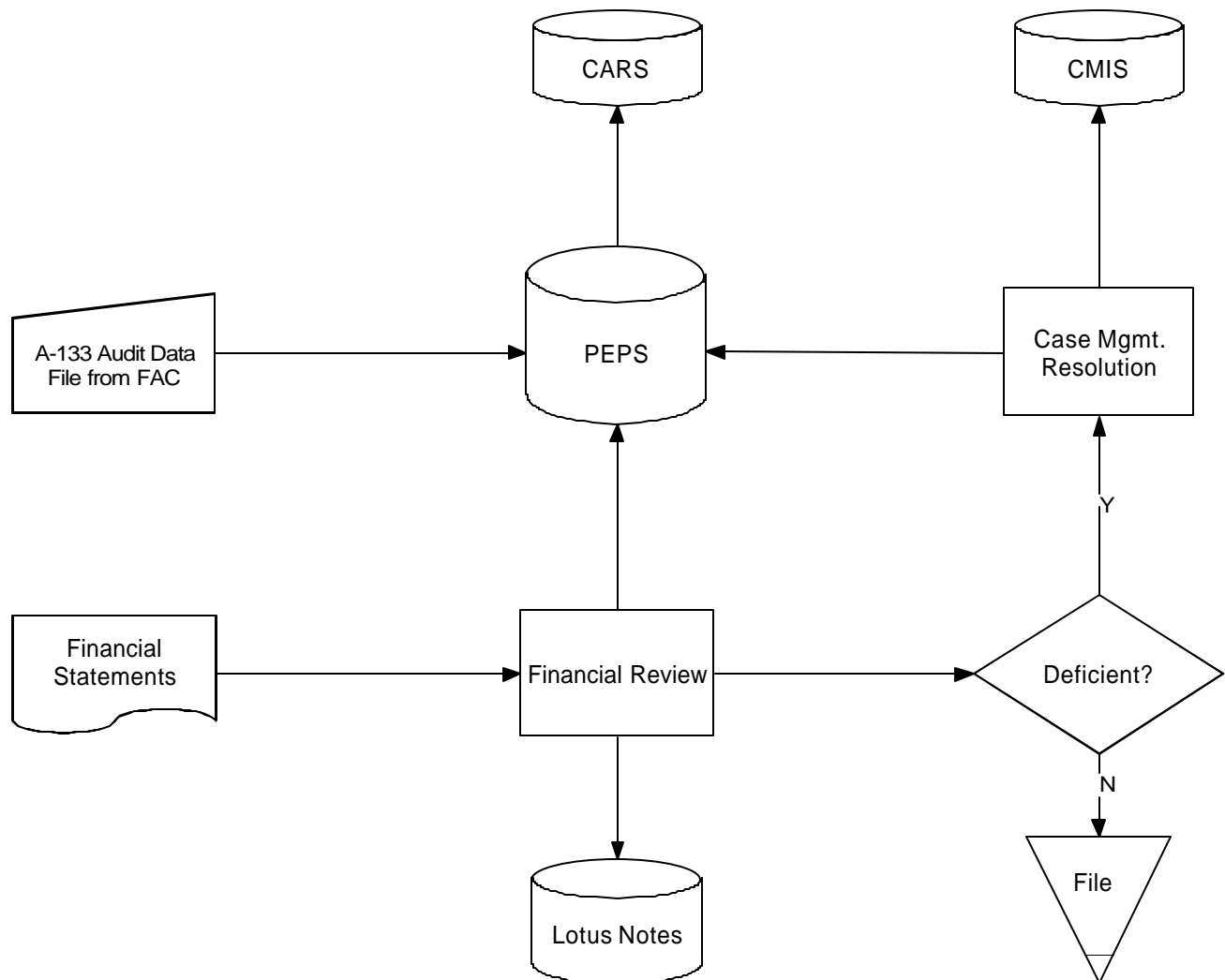
- EINs- FAC numbers and PEPS numbers may not match due to lack of PEPS updates. “Parent” and “children” numbers difficult to match due to constant changes. FAC will start using a DB Key number to track related EINs. Will need to consider how this will affect PEPS.
- Special requests for audits from schools that have no direct funding are an inefficient use of FAC staff time. Information on these type schools is in the No Direct file (GND.txt) transmitted to the DRCC and Sherry.
- FAC needs updates of direct funding CFDA numbers so data collection form can be properly coded. Information in the circular is not all-inclusive.

Compliance Audit Review Flowchart



1. SFA Compliance Audits received by DRCC
2. *Perform Acceptability Review in Lotus Notes. (A-133 institutions bypass this step. Assume they are acceptable based on FAC's review)
3. Once acceptable, perform Compliance Review in Lotus Notes
4. Enter results in PEPS
5. If no deficiencies, file
6. If deficiencies, send to Case Mgmt. Team for resolution
7. Open case in CMIS
8. Enter results in PEPS
9. PEPS outputs data to CARS to create receivable

Financial Statement Review Flowchart



1. A-133 audit file containing data (includes ACNs) on complete and non-complete audits received is transmitted from FAC and downloaded in PEPS
2. Copies of financial statements from all institution types received by DRCC
3. Perform Financial Review in Lotus Notes
4. Enter results in PEPS
5. If no deficiencies, file
6. If deficiencies, send to Case Mgmt. Team for resolution
7. Open case in CMIS
8. Enter results in PEPS
9. PEPS outputs data to CARS to create receivable